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Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00
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C O N F I D E N T I A L SECTION 01 OF 02 LONDON 10118

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PASS DOT (ADAMS, DAVENPORT, KAMM), CAB (KAHN, RODRIGUEZ)
FROM ALAN BOYD

E.O. 11652: GDS
TAGS: EAIR, UK
SUBJECT: US-UK CIVIL AIR SERVICES NEGOTIATIONS:
ASSESSMENT FOR THE PRESIDENT

1. LONDON 10104 GAVE DETAILED REPORT ON YESTERDAY'S NEGOTIATING SESSIONS. THE FOLLOWING IS MY ASSESSMENT AS WE BEGIN TALKS ON MONDAY.

2. THE FUNDAMENTAL ISSUES IN NEGOTIATING A NEW CIVIL AIR SERVICES BILATERAL WITH THE UNITED KINGDOM HAVE BEEN: PROVISION FOR DETERMINATION OF CAPACITY TO BE OFFERED, INCLUDING PROCEDURES TO GUARD AGAINST EXCESSIVE CAPACITY; AGREEMENT ON HOW MANY AIRLINES EACH SIDE MIGHT DESIGNATE ON EACH ROUTE; LINKAGE BETWEEN CHARTER AND SCHEDULED AIR SERVICES AGREEMENTS, AS A MEANS TO OBTAIN UK ACCEPTANCE OF MORE LIBERAL (COMPETITIVE) US CHARTER PHILOSOPHY; AND ROUTES TO BE AVAILABLE TO THE AIRLINES OF EACH SIDE.
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A. ISSUES RELATING TO CAPACITY, DESIGNATION WILL MOST LIKELY BE SATISFACTORILY RESOLVED BY MIDNIGHT TUESDAY, WHEN THE EXISTING US-UK AGREEMENT EXPIRES. AT THAT TIME THE MAJOR OPEN ISSUES, OTHER THAN CHARTER, WILL BE ALL RELATED TO TRAFFIC RIGHTS--ROUTES, OPERATING CONDITIONS, ACCESS TO TRAFFIC FLOWS.

B. THE UK IS LIKELY TO INSIST (I) THAT THESE

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TRAFFIC RIGHTS ISSUES ARE ALL NEGOTIATING ITEMS, THAT NONE INVOLVES MATTERS OF PRINCIPLE, (II) THAT THEREFORE THE US CANNOT SERIOUSLY CONSIDER CESSATION, SINCE MATTERS OF PRINCIPLE WILL HAVE BEEN RESOLVED.

C. COME MIDNIGHT TUESDAY, THEY MAYBE CORRECT. ALL ISSUES OF PRINCIPLE MAY HAVE BEEN SETTLED. MY ASSESSMENT, HOWEVER, AT THE BEGINNING OF MONDAY'S NEGOTIATIONS, IS THAT MATTERS OF PRINCIPLE ARE INVOLVED IN THE REMAINING ROUTE ISSUES. (THE FUNDAMENTAL PRINCIPLE OF MAINTENANCE OF EXTENSIVE U.S. INTERNATIONAL ROUTE SYSTEM IS STILL AT ISSUE.) BY TOMORROW NIGHT I HOPE THAT THAT WILL NO LONGER BE THE CASE. THE TWO SIDES ARE IN FACT GETTING CLOSER.

3. HONG KONG

A. YESTERDAY'S NEGOTIATIONS INDICATED THAT THE PACIFIC ROUTE ISSUES MAY BE PARTICULARLY DIFFICULT.

B. HONG KONG SEEKS EXTENSIVE RIGHTS TO THE US VIA JAPAN AND PROTECTION OF ITS OWN AIRLINE FROM US AIRLINE COMPETITION IN THE WESTERN PACIFIC. THIS HAS LED HONG KONG TO DENY 5TH FREEDOM RIGHTS FOR US AIRLINES BETWEEN HONG KONG AND POINTS IN ASIA, EXCEPT FOR A LIMITED NUMBER OF FLIGHTS TO BANGKOK OR SINGAPORE (7 PER WEEK) AND JAPAN (14 PER WEEK).

C. THE US HAS AGREED TO EXTENSIVE UNRESTRICTED RIGHTS FOR CATHAY PACIFIC (THE HONG KONG AIRLINE) TO

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HONOLULU AND CALIFORNIA, BUT IN RETURN INSISTS ON A PACKAGE INCLUDING CONTINUANCE OF ALL RELEVANT 5TH FREEDOM RIGHTS IN THE AREA AND NEW FIFTH FREEDOM AUTHORITY TO SINGAPORE, TAIWAN, AND KOREA.

D. THE PARTICULAR DIFFICULTY IS THAT THE HKG HAS BECOME EMOTIONALLY COMMITTED TO ADVANCING CATHAY PACIFIC'S INTERESTS AND HAS RAISED THE HONG KONG ROUTES ISSUE WITH UK MINISTERS, AS A POLITICAL MATTER. THIS HAS PLACED THE UK IN THE POSITION OF EITHER DEFENDING HK INTERESTS (BY DENYING RIGHTS TO US AIRLINES) OR TURNING ITS BACK ON HK INTERESTS (BY ACCEPTING THE PACIFIC ROUTE PACKAGE). THE LATTER ALTERNATIVE IS APPARENTLY NOT POLITICALLY FEASIBLE; AT LEAST MY COUNTERPART HAS TOLD ME THAT CALLAGHAN WILL NOT TURN HIS BACK ON THE GOVERNOR OF HONG KONG.

E. THIS ISSUE COULD POSSIBLY LEAD TO A TELEPHONE CALL FROM CALLAGHAN ASKING US ACQUIESANCE TO LIMITED HONG KONG ROUTE RIGHTS, OUT OF CONSIDERATION OF THE UK'S POLITICAL RELATIONS WITH HONG KONG.

F. THE DIFFICULTY WITH THE UK PROPOSAL ON HONG KONG, IN TERMS OF THE ECONOMICS OF INTERNATIONAL AIR OPERATIONS, IS THAT IT IS DIFFICULT FOR LONG-HAUL AIR-
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LINES TO SUPPORT REGULAR SERVICES AT SUCH DISTANCES WITHOUT THE RIGHT TO SERVE REGIONAL TRAFFIC ON THEIR THROUGH FLIGHTS. YET BROAD U.S. INTERESTS REQUIRE VIABLE U.S. AIRLINE OPERATIONS TO PRINCIPAL POINTS IN THE WESTERN PACIFIC. (THE HONG KONG ECONOMY BENEFITS SUB-STANTIALLY--IN TERMS OF TIME-SENSITIVE EXPORTS AND TOURISM INFLUX--FROM THESE U.S. AIRLINE SERVICES.)

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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Document Number: 1977LONDON10118
Document Source: CORE
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Drafter: n/a
Enclosure: n/a
Executive Order: GS
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Original Handling Restrictions: n/a
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Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
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Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2097435
Secure: OPEN
Status: NATIVE
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TAGS: EAIR, UK, US
To: WHITE HOUSE STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/697ee779-c288-dd11-92da-001cc4696bcc
Review Markings:
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Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009